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MAF: [00:00:00] Welcome back to behavioral science for brands, a podcast where we connect academic insights and practical marketing to help you grow your business and your brand. Every other week, Richard and I sit down and talk about some of the country's best brands and the behavioral science that's powering them.

I'm MichaelAaron Flicker

RS: and I'm Richard Shotton.

MAF: And today we're diving deep on a brand named Everlane, a DTC clothing company that has made Radical transparency and fairness, a core tenet of their business. So Richard, when we first heard about Everlane, we were super intrigued by some of the core tenets that they built the brand around.

We're gonna talk about some of those today, and we'll dive in and talk about the behavioral science that's powering it. Uh, but Everlane started in 2011 by Michael Prisman and Jesse Farmer. On the surface, just looks like a very nice, very polished DTC e commerce clothing [00:01:00] company. But when you learn about their ethos, exceptional quality, ethical factories, and radical transparency, you start to uncover that they're doing something very different in the fashion world.

Uh, number one, when you go to their website and you click on any clothing item, you could see not just Where the garment was made, but the actual factory it was produced in and this idea of radical transparency extends to their products. They show all of the raw costs to make the product. And the concept that the founders came to was that there's just wild overpricing in garments across most of the U S and so they shared the true.

pricing, they share the true cogs, they would have something really unique and different. This wins them one of Fast Company's most innovative companies in 2018. And even their name was designed to support this ethos. [00:02:00] Lane suggests a path, the journey to take the fashion industry. Towards greater transparency and ethical fashion and ever is like a sense of permanence implying the brand's values are enduring.

So they're on this mission to bring more transparency and ethical fashion to life. Uh, And as of 2023 last year, online revenues of 262 million. They are a big time winner in the e commerce space. They currently shipped 143 companies. And when you listen to interviews with the founders. Priesman said a basic high end t shirt costs around 7.

50 to make, but gets sold everywhere for like 50. He was like, holy cow, there's a real discrepancy here. And so for him, he almost set up this boogeyman that the industry is quote, a dirty industry, and they're on a [00:03:00] mission to clean up the space. Interestingly, they've tested a lot of different tactics, including something they call the choose what you pay sale, where they allow shoppers to select one of three price points, the lowest just covers production and shipping costs, while the higher includes overheads, as they're really trying to bring the the lowest The inner workings of how pricing happens to the forefront.

So everybody understands where the costs come from, from the clothing they make. So lots to dig into here on Everlane. Interesting business model. And we felt when we were spending time on their website, a lot for wider brands and wider businesses to take away from. Um, so where should we start with Everlane?

I

RS: think the best place to start is with their transparency. As you say, it's a Radical Transparency in which they talk about their cost and profit margin, but crucially they then compare that with the industry, the dirty, vashed industry as they call them. And it's this [00:04:00] positioning of Everlane as behaving fairly and their competition behaving unfairly, which I think has broad application to many brands because humans are hardwired to react very angrily, very poorly, if they think they're being treated unfairly.

So there's a brilliant study, a 1982 study by, um, Werner Guth, uh, called the ultimatum game. And when he was at University of Cologne, he recruits a pair of people and he puts them in separate rooms. They're never going to meet. They never have met. And one of them is the proposer and one of them is the receiver.

Okay. So he goes to see the proposal and says, here's say 10. You decide how you're going to split it. With this anonymous person in another room, you decide. And then once you made that decision, I'll make the offer to the other person. And the receiver has two options. [00:05:00] They accept the offer as it stands.

There's no negotiating. They either accept the offer as it stands or they reject it and both parties get nothing. So this is interesting because from a classical economics point of view of self interest. Let's say I'm splitting the money and I split 10, nine for me, 1 for you. It's in your self interest to accept that unfair payment because if you say no, you've lost a dollar.

MAF: Because my option is 0 for 1.

RS: And 1 you can buy a lot more than 0. However, that behavior does not happen regularly. Most people, if they are offered less than about 30 percent and there is variation by culture, but put that to one side for a second, most people, if they're offered less than 30 percent will reject the offer.

You know, they would rather have both people having nothing than them being taken advantage of. So. It's this idea that [00:06:00] people would go to great lengths, they will suffer a financial disadvantage to punish people who've treated them unfairly. Guth explains this from an evolutionary angle. He argues that for most of our evolutionary history we have been very, very weak as individuals.

We don't have tusks, we don't have horns, we don't have big teeth, but we unite as a group, and suddenly the humans are the most powerful animal in the world. But for groups to operate successfully, you have to get rid of the free rider problem. So we have evolved, uh, to punish people who take advantage of us, even if that is a cost to us as an individual.

Now that Guth experiment, I think is very interesting, but it's a slightly Strange saying, but the basic idea has been shown in other experiments. So one of my favorite studies is a 1996 study, uh, Sally Blount, who's at Northwestern University, I think at the time, and [00:07:00] Max Bazem. And they run this among students.

Students arrive on campus for the first day of university, and the psychologists go up to them and say, um, we want you to come and help us do half an hour. Of research tomorrow and we'll pay you 7. Now, 1996, 7 is a reasonable sum of money. So most people would say yes. 72 percent say yes. That's their control group.

Next group, they find another group of people. They offer them more money, 8. But they also say, like, I'm really sorry, but earlier on today, we were offering other people 10, but we've run out of cash. So this second group are being offered more cash, but they are told that others are even better. If people again acted like sensible, rational machines, they would.

A dollar is better than zero. Exactly. But again, that [00:08:00] is not what happens. You only get 54 percent of people accepting the offer. So even though it's a better financial deal, you get about 25 percent less people accepting the wage offer again. If people think they're being treated unfairly, they are prepared to go to great lengths, even if it comes at a cost themselves, to punish the, um, the transgressor.

So, sorry, slightly long winded way, two experiments there, but both of them show that if you can position your competition, As behaving unfairly, then you can rouse your audience to move away from that provider and flock towards your own brand. I think if you can do that in a meaningful and powerful way, you are tapping into one of the most effective biases there is.

MAF: So Richard, it occurs to me that before you can get to what Everlane has done, which [00:09:00] is where you just ended saying that if you can position the, uh, the, your competitors badly, you can endear yourself and, and feel more authentic to your audience. The first thing that I took away from those two studies was depending on the delivery, the dressing around the offer.

It's comparative to what, uh, the audience is hearing. So when I had no idea that I can make any money and I'm offered 7, seven is better than zero. I take it. But when I hear that it was 10 and now it's eight in comparison, it's worse. So there's another piece of the learning we can take away here that it's really the way that you set up.

The comparison or the way that you dress the offer that matters as much as what the actual offer is. Yeah, I think

RS: that's absolutely fair. How you frame something is, is super important. And the, often the way that consumers are currently interacting different brands is not the only way that that [00:10:00] situation can be positioned.

So for example, if I was a insurance brand at the moment, and. In a situation where an awful lot of people use a comparison site, I will be doing everything within my ability to position those comparison sites, not as a customer champion who helped people find better deals, but as a. A leech who add on 20 or 30 pounds to every policy, that same behavior can either be framed as helping people get a good deal or adding unnecessary cost of the situation.

There's an opportunity, I think, to radically reposition, um, brands in certain categories.

MAF: Yeah. And I think what we want for folks to take away from here is that if you want to be a disruptor in a space, if you want to try to, Position something that's happening in your industry and in negative light, you can [00:11:00] use these insights to not just reveal what's going wrong, but in comparison to show what, what you're doing well.

RS: Yes. You know, your point earlier about it's, it's how you position these things. It's not just the, the competition of behaving badly. It's that they're behaving unfairly. And I think those are slightly different things.

MAF: Well said. And, and being fair as like Chris Voss says, and never split the difference is almost the thing that matters most to people.

It's that it's unfair that they're taking so much profit. And that's, and that attacks a sense of justice we have about what we should be paying.

RS: Yeah. I think that's a, that's a really good example. I think Chris Voss is. Uh, you know, a brilliant writer, uh, never split the differences, a brilliant book. And often the points that he makes have a psychological underpinning.

Yes. So he often talks in that book around people will crash a deal on negotiation. They feel they're being taken [00:12:00] advantage of, even if it would be profitable for the company. If people think it's unfair, then they're prepared for everyone to go down in flames. So yes, we can apply this. When we think about consumer behavior, but I think as professionals as well.

Yeah. He

MAF: calls it

RS: the

MAF: F word. Does he?

RS: Okay.

MAF: I

RS: didn't know that.

MAF: Uh, but you know, what's also interesting as I was preparing for this episode and researching Everlane online, a lot of the questions in Google searches that come up is why. You know, why do they charge a hundred percent markup? What about this?

What about that? And what I was realizing was they're clear brand ethos that when you read their about page comes through is a very complicated message to distill down in a shopping experience. So to them, a hundred percent markup is wildly better than the 400 percent mark of the industry's showing.

But in these Google searches that was clearly being lost. I mean, [00:13:00] it's very hard to make sure your message is heard all together holistically.

RS: Yeah, I think you're right. And, um, we interviewed a while back brilliant planner, Sarah Carter, and she talked about the idea that one of the best things you can do as an advertiser is assume The indifference of your audience.

So if Everlane success requires people to have read their ethos and their brand mission, that is not going to work. That is an unrealistic expectation. You need to sum up why you're fair and why the competition is fair in something that people can pick up in a couple of seconds. That's assuming indifference in your audience.

Unfortunately, I think as things currently stand, Everlane are expecting too much of their audience to engage that complexity. But I still think they are a very interesting, if not perfect brand. Because the great thing with behavioral science is it, it picks [00:14:00] out these One or two elements of a brand, which other people can learn from.

That's right. So there are lots of elements to Everlane. The experiments by Blount and Goof just look at fairness. They hold all the other variables equal. They just look at fair versus unfair. And they show that repositioning a behavior as being. Unfair can lead to a radical change in behavior. So it's that element that Everlane are touching on, but I think other brands can learn on, learn from, but they might want to express it, as you say, in a much, much simpler way.

MAF: Yeah, and, you know, a 280 million a year company, they're clearly successful. They have publicly stated their goal is to be a billion dollar clothing brand, a billion dollar company. To get there. You know, you assume that people understand your proposition, and you have to assume, like us, as new people, nobody knows what your, your brand mission is, and how do [00:15:00] you continue to simplify the message and communicate it, uh, in the easiest way possible.

All right, well, let's head to break, and when we come back, we'll talk more about the psychology and behavioral science.

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MAF: Welcome back to Behavioral Science for Brands, a podcast where we connect academic insights and practical marketing to help grow your business and your brand. In this episode, we're looking at Everlane, a D2C e commerce clothing company with a radical commitment to transparency and fairness.

We spent the first half of the episode talking about the F word, [00:16:00] fairness, and We wanted to build on this, thinking about more broadly how companies can use transparency and fairness to, um, pass on cost, increase price, which is applicable to all of us. How can we think about The messaging that goes around when we have to increase price, um, and there's a lot to learn in this case study.

RS: Yeah, fairness is definitely relevant to price increases, and there's a lovely set of experiments by Richard Thaler, uh, he's a Nobel Prize winner in economics, and back in 1986, he gave people a variety of different thought experiments. So for example, some people were told there's a hardware store nearby, uh, there's a giant snowstorm.

The next day after the snowstorm, they increase the price of the snow shovels from 15 to 20. Is this fair or unfair? And 82 percent of people say it's unfair. [00:17:00] So in this particular setting, where someone has exploited an, an, a increased demand for their product and they just shoved up the price, most people react negatively to that.

Second type of scenario, uh, for example, there was one around a greengrocer, uh, Thaler tells people the greengrocer has had a transportation mix up. They've had to pay an extra 30 cents to their supplier. Um, they put up their cost by 30 cents. Do you think this is fair or unfair? And in that setting, just 21 percent of people.

Think that it's unfair. So you've got this wildly different viewpoint and essentially the belief in the price Increase being fair or unfair is not driven by the cash amount that's going up It's driven by the motivation of the of the of the seller now most economists to say Motivations are irrelevant and people are just gonna [00:18:00] Respond to the facts, but Taylor says that's not the case.

In reality, we have this view that it's much more acceptable to pass on costs than just, uh, exploits increased demand. So if we bring this back to how brands can apply it, if you are in a situation where you have to put up your prices, explain to your audience that there's much explained as much as possible of that price increase is you pass on costs.

So if you put up your prices by. 10 pounds, make sure people know seven pounds of that is extra heating costs or extra staff costs or extra tax costs. The more you explain where those price rises have come, the more people will accept them.

MAF: Yeah, and for us, it comes back to thinking about not just the business outcome you need, but the way you deliver it to the consumer.

So that it can be, uh, understood and embraced as much as possible. [00:19:00]

RS: Yes, absolutely. It's that explanation, that wrapper that goes around the price increase that's important. People do not just think, how much value am I going to get from the item that's being sold, um, and now how does the price compare to that?

That's probably how we should behave, but we're not desiccated calculating machines. Uh, from my own personal memory, I can remember, uh, being away on a work trip, Being absolutely tired to the point of exhaustion, really, really wanting a coffee. The coffee would have brought me 10 or 15 pounds of benefit.

But when I found the first shop, I think I might have been in Oslo or somewhere, and it was six pounds for a cup of coffee. I just couldn't bring myself to spend it because it felt unfair. I would have got more benefit from that expenditure than the cash they were asking for, but because I felt it transgressed a fairness norm, I wasn't prepared to do it.

I probably would have then gone spent six pounds on a pint of beer that wouldn't have got me [00:20:00] anywhere as much happiness, but it, the beer would have felt, um, Within those those fairness norms so remember that we are not dealing with automatons we're dealing with people who are very highly attuned sense of fairness and you as a brand need to make sure you got on the right side of that.

MAF: Richard we spent a lot of time talking about explaining the prices and conveying it a strategy i know many cpg brands use is slowly. Increasing price over a longer period of time, they won't take more than a 50 cent price increase in a year to 25 cent increases every six months. Now that's a different strategy where they're slowly making the changes over time, rather than taking all the price at once.

What would behavioral science say about that approach?

RS: I think, I think yes. An interesting one. And of the three experiments discussed, the one that it probably relates most to is the Blounton Baseman study, where the [00:21:00] willingness to accept a certain level of payment for a job was dependent on what other people were getting.

So people would have a comparison number and then that determined whether they thought the wage was fair. I think you could apply that to your example. Now, people are not thinking Is 11 a fair price for this bag of beans? They're thinking, well, I used to pay 10. 50, 11 isn't that much. You wait till they've forgotten that price rise.

And then you say, it's not 11, it's 11. 50 because they're always comparing about with the last price, as long as you can make that. Uh, uplift incremental up incremental and small and feel fair, then you are going to be able to put through more price rise and then one big jump. So yes, I think multiple small price rises would fit better with people's psyche than one large price rise.

MAF: So then of course it becomes what business scenario are you in? If you are in a [00:22:00] spot like we're all looking at potentially America having tariffs. At the end of 2024 into 2025, where there might be a step change, price increase. Some type of explanation may make more sense. If you start taking price now in anticipation of a price rise increase in the future, maybe you do not need to explain it.

So I, you know, it always comes back to what's the business case you're in and how much advance notice do you have?

RS: Oh, absolutely. And encouraging someone to purchase your products is not like a mathematics question where there is one good answer. There are multiple techniques that you can use to encourage people to buy you rather than your competitor.

You've got all these different techniques that behavioral science lays out for you. You've got to choose which of the biases, which of the experiments is most relevant for your particular, your particular setting.

MAF: Well said. Well said. [00:23:00] As we come to the end of the episode, can we ask you to wrap up the big ideas, the big theories from today?

So I think we've had

RS: three big discussions today. We firstly talked about the importance of fairness to consumers. That if people feel they have been unfairly treated, they will go to inordinate lengths to punish the transgressor. Second point was you as a brand can harness. That insight, this is not an abstract academic idea.

The way that you position your competitors can change a behavior of being perceived as fair to being perceived as highly unfair. So the example we discussed was insurance comparison sites. They currently position themselves as market champions, giving you the information to pick more cheaply. You could, I think just as easily position that.

Business sector as being a unfair [00:24:00] additional cost that's being added onto the process that's taking advantage of customers. So it's not that there is a objective fairness. It's up to you to put the most convincing case together to swing people behind the argument that works best for you. And then the third and final point we talked about was people will accept a price rise more willingly.

If they believe you're passing on costs rather than exploiting a situation. So if you ever in a situation where there's inflation, there's tariffs, there's extra, um, costs in your business, cause staffing issues, make sure you tell your supply, uh, your, your potential customers.

MAF: Lovely. And that wraps up today's episode.

If you found value in today's talk, please give a follow on YouTube or leave a comment. It helps us reach more listeners just like you. And if you'd like to go deeper on any of the topics we talked about today, please visit theconsumerbehavioralab. com. There we have a video of [00:25:00] today's talk, full transcripts of everything we said, and show notes, which will have the studies and more in depth information about the topics we talked about today.

Also, if you'd like to follow us in between episodes, reach out and follow us on LinkedIn, where you can hear all the things that are happening week by week. And until next time, I'm MichaelAaron Flicker

RS: and I'm Richard Shorten.

MAF: Thanks for tuning in and we'll look forward to bringing you our next episode of behavioral science for brands the week after next.